



## Summary of the Development of the 2008–09 State Budget

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The Governor is expected to sign a state budget for the current fiscal year early this week. The \$104.3 billion State General Fund budget is \$800 million, 0.8% higher than in 2007–08. This budget attempts to close a \$15.2 billion deficit with \$9 billion in spending reductions and \$6 billion in new revenues (earlier tax collections, removing some corporate tax deductions, increasing companies' tax underpay penalties). It assumes voter approval of a lottery leasing proposal in a special election expected to be held early in 2009 that will generate \$10 billion in 2009–10 and 2010–11.

Even with the budget in place, state finances are far from stable. Under this budget, the current fiscal year will end with a deficit of at least \$1.5 billion, and possibly \$7 billion, depending upon the special election and other factors. The state and national economies are uncertain and should conditions deteriorate, state revenues will decline even more. The budget also includes permanent tax breaks for large businesses that are expected to reduce future state revenues by billions of dollars.

Below are some significant actions that occurred during the evolution of the 2008–09 State budget:

**January 10, 2008:** The Governor's proposed budget contains across-the-board 10% funding reductions. He requests the Legislature convene an emergency session to address an estimated \$18 billion gap between revenues and spending over the fiscal years 2007–08 and 2008–09.

**Early March:** The legislature adopts measures that reduce 2007–08 spending by \$1 billion and take other action that lower the projected deficit for 2008–09 to around \$7 billion.

**March – May:** The Legislature holds more than five dozen budget subcommittee hearings to deliberate the budget and to air proposals to address the deepening budget crisis.

**May 14:** The Governor's May Revision projects a \$15 billion deficit, driven by decreased revenues and increased costs. He proposes additional spending reductions and the issuance of bonds backed by anticipated future revenues from the California State Lottery.

**June – July:** The Legislature's budget conference committee deliberates the budget. They pass a budget report in early July but the bill fails to obtain the necessary two-thirds vote in either house.

**Early August:** The Governor proposes a compromise budget plan that maintains 2007–08 funding into 2008–09, backs up the Lottery securitization plan with a temporary one-cent increase in the state portion of the sales tax, and establishes a "rainy day" fund to capture unanticipated additional revenues for use during revenue downturns. Shortly thereafter, both the Senate Democrats and the Senate Republicans introduce separate new budget proposals. None of these budget plans are approved by the Legislature. The state faces serious cash-flow issues and billions of dollars are withheld from hospitals, schools, and other state programs.

**September 16:** 78 days after the Constitutional deadline, the Senate and Assembly adopt a budget compromise. It closes the projected \$15.2 billion deficit with spending cuts and \$9.3 billion in projected additional revenues, mainly from a series of early tax collections. The Governor disagrees with major components of this plan and threatens to veto it.

**September 19:** After two days of negotiations between the Governor and Legislative leaders, the Legislature again votes to approve a budget. The Governor is expected to sign this budget with few changes.

**Late September:** The Governor signs the budget for the 2008–09 fiscal year.